

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PM-05 SP-02 NSC-05 CIAE-00 DODE-00
INR-07 NSAE-00 PA-01 USIA-06 PRS-01 EB-08 COME-00
OMB-01 TRSE-00 /049 W
-----003157 231458Z /53

R 231359Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4279
INFO AMEMBASSY BUCHAREST
AMCONSUL BREMEN
AMCONSUL MUNICH

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E.O. 11652: N/A
TAGS: EAIR, EEWT, GW, RO
SUBJECT: VFW-614 PRODUCTION CANCELLED

REF: BONN 20866

1. SUMMARY: ON DECEMBER 16 VFW MANAGEMENT ANNOUNCED THE SHELIVING OF THE VFW-614 SHORT HAUL JET AIRLINER BY THE BEGINNING OF 1978. ON DECEMBER 21, THE FRG CABINET PUT THE FINAL NAIL IN THE 614 COFFIN BY ANNOUNCING FINANCIAL SUPPORT FOR VFW BREMEN WITH THE CONDITION THAT 614 PRODUCTION END. FRG FOREIGN OFFICE OFFICIALS HAVE NOT ABANDONED ALL HOPE THAT THE VFW-ROMANIAN DEAL CAN SURVIVE. END SUMMARY.

2. ON DECEMBER 16 THE BOARD OF DIRECTORS OF THE JOINT DUTCH-GERMAN FIRM, VFW-FOKKER ANNOUNCED TO ITS EMPLOYEES IN THE BREMEN DIVISION, WHICH PRODUCES THE SHORT HAUL PASSENGER JET VFW-614 THAT, AS OF DECEMBER 31, VFW-614 PRODUCTION WOULD BE DISCONTINUED. IN SPITE OF THIS DECISION, SOME QUARTERS STILL RETAINED
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THE HOPE THAT THE FEDERAL GOVERNMENT WOULD BAIL OUT THE PROGRAM IN ORDER TO SAVE 1100 JOBS IN THE CITY OF BREMEN WHOSE MAYOR, KOSCHNICK, IS A HIGH RANKING AND RISING SPD OFFICIAL. CHANCELLOR SCHMIDT, WHO COMES FROM NEAR BY HAMBURG, IS ALSO REPORTED TO HAVE TAKEN A PERSONAL INTEREST IN THE PROBLEM OF EMPLOYMENT OF VFW WORKERS. UNION AND OTHER PRESSURE WAS PUT ON THE

GOVERNMENT TO SALVAGE THE TECHNICALLY-SOUND BUT FINANCIALLY-PLAGUED 614, THE FIRST POST-WWII CIVILIAN JET AIRCRAFT DESIGNED AND BUILT ENTIRELY BY GERMANS. (GERMAN INDUSTRY, ESPECIALLY MBB IS A MAJOR PARTNER IN THE AIRBUS PROGRAM.)

3. ON DECEMBER 21 THE FRG CABINET ANNOUNCED ITS DECISION TO PROVIDE FINANCIAL SUPPORT TO VFW BREMEN ON CERTAIN CONDITIONS. THESE CONDITIONS INCLUDED CESSATION OF 614 PRODUCTION AND EVENTUAL MERGER OF ITS OTHER LINES WITH MBB. MARTIN GRUENER, PARLIMENTARY STATE SECRETARY FOR ECONOMIC AFFAIRS AND COORDINATOR FOR THE GERMAN AEROSPACE INDUSTRY, WAS REPORTED BY THE PRESS AS STATING THAT A COMBINED FEDERAL GOVERNMENT/ LAND BREMEN ASSISTANCE OF DM 280 MILLION WOULD BE GIVEN IMMEDIATELY WITH AN ADDITIONAL CASH SUBSIDY OF DM 110 MILLION PROVIDED TO COVER THE COSTS INVOLVED IN DISCONTINUING THE 614. THE GOVERNMENT WILL ALSO PROVIDE DM 150 MILLION TO GUARANTEE LONG TERM INVESTMENTS. (THE LATTER TWO SUBSIDIES WERE MINIMUM STEPS MBB REQUIRED BEFORE IT WOULD CONSIDER TAKING VFW UNDER ITS MANAGEMENT.)

4. IN A TELEVISION INTERVIEW THAT SAME EVENING GRUENER EXPLAINED THAT THE REPORTED AMERICAN ORDER (REFTEL) HAD ONLY REACHED THE PRELIMINARY NEGOTIATING STAGE, LIMITED OFFICIAL USE

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AND THE DISCUSSIONS CONCERNED LEASING NOT SALES. HE SUGGESTED THE U.S. FIRM WAS TRYING TO TAKE ADVANTAGE

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OF VFW'S PROBLEMS BY MAKING RIDICULOUSLY LOW OFFERS AND BROADLY HINTED THAT IN ANY CASE THE U.S. FIRM'S STATUS AS A REGIONAL CARRIER WAS NOT BROAD ENOUGH TO BASE CONTINUED 614 PRODUCTION ON SALES (OR LEASING) TO IT.

5. FRG FOREIGN OFFICE CONTACTS TOLD EMBOFF THAT THE ROMANIANS HAVE BEEN ADVISED OF THE CANCELLATION OF 614 PRODUCTION. THE FOREIGN OFFICE OFFICIALS SPECULATED THAT SINCE THIS WAS A "PRIVATE DEAL" BETWEEN VFW AND ROMANIA, SOME POSSIBILITIES COULD STILL EXIST TO CONTINUE THE CONTRACT. THEY, HOWEVER, WERE NOT INCLINED TO TRY AND SPECIFY THESE POSSIBILITIES.

6. COMMENT: IT APPEARS THE VFW-614 IS FINALLY DOWN IN FLAMES. THIS FIRST OFFERING OF THE GERMAN CIVIL AIR INDUSTRY WAS HOBBOLED FROM ITS INCEPTION WITH LARGE COST OVER-RUNS AND PRODUCTION DELAYS W INCLUDING THE CRASH OF THE PROTOTYPE WHICH RESULTED IN IT REACHING THE MARKET LATE -- TEN YEARS FROM THE DECISION
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TO START PRODUCTION TO THE COMPLETION OF THE FIRST PRODUCTION MODEL AT TOO HIGH A PRICE (APPROXIMATELY DM 17 MILLION). RECRIMINATIONS NOW ABOUND AS TO WHERE THE BLAME LIES, WITH THE DUTCH DOMINATED HOLDING COMPANY SEEN BY THE GERMAN DIVISION AS THE MAIN VILLIAN. ACCUSED OF POOR MANAGEMENT AND SALESMANSHIP, THE HOLDING COMPANY NOW HAS CHARGES FILED AGAINST IT BY THE CHAIRMAN OF THE LAND BREMEN SPD FOR ALLEGED FRAUDULENT PRACTICES IN OBTAINING GOVERNMENT SUBSIDIES. THE VFW-614 MAY BE DEAD BUT THE QUARREL AS TO WHO KILLED IT MAY LIVE ON FOR SOME TIME.
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